



Results Review

Etisalat

Rating: Outperform

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Etisalat Q1 2011 Results, Maintain Outperform, Reduce TP AED 12.80, 22% Upside

- Etisalat reported Q1 2011 results with net income of AED 1,817mn (-10.3% qoq, -8.9% yoy), 7.6% below our expectations and 4.8% below BBG consensus, with a net income margin of 22.6%, down from 23.5% in Q4 2010 and marginally below our net income margin forecast of 23.3%
- Revenues grew yoy but fell qoq to reach AED 8,040mn (-6.6% qoq, +2.1 yoy), 4.8% below our expectations and 2% below consensus, with revenue split of 77.3% from the UAE operations and 22.7% from international operations.
- EBITDA grew on a quarterly basis to AED 4,109mn (+3% qoq, -4.8% yoy), with an EBITDA margin of 51.1% in line with our estimate of 51.4%, but in absolute terms were -5.4% below our expectations as a result of weaker than forecast revenue.
- Etisalat continued with its investments in UAE FTTH, UAE LTE and also abroad with capex of AED 1,113mn, giving capex/sales of 13.8% for Q1 2011.
- UAE mobile subscribers fell by 334,000 in Q1 2011 to 7.43mn.
- UAE internet subscribers increased by 20,000 to 1.4mn (+5.8% qoq, +1.4% yoy), including 220,000 elife customers and 490,000 broadband subscribers, whilst UAE fixed line subscribers declined by 107,000 to 1.13mn (-8.6% qoq, -13.1% yoy).
- The UAE remains Etisalat's key market, contributing 77% of revenue, 91% of EBITDA and 93% of net profit in 2010. Within the UAE mobile is the key segment contributing 45% of UAE revenue in 2010. The large fall in mobile subscribers in Q1 2011 we believe indicates that du is gaining substantial traction in this key segment, resulting in lower EBITDA and net income margins for Etisalat from the UAE going forward.
- Near term catalysts of mobile number portability and the unbundling of the local loop are expected to benefit du more than Etisalat. Although international operations are growing at a far faster rate than UAE operations, the growth is not enough to offset the slowdown of UAE operations. Mobily and Etisalat Misk continue to perform well. However, Indian operations, which should have helped drive revenues over the medium term are currently contributing minimal revenues (AED 2mn in 2010) but are incurring costs (-AED278mn EBITDA contribution in 2010). As international operations continue to contribute a greater proportion to overall results, we expect EBITDA and net income margins at a group level to decline as international operations have lower margins compared to UAE operations.
- We maintain our *Outperform* rating on Etisalat but revise our target price down by 15% to AED 12.80 from AED 14.66, giving 22% upside from the current price.

Equity Data

Etisalat	
Current Price (AED)	10.50
Target Price (AED)	12.80
Upside/Downside	21.9%
12 Month Performance	-0.9%
12 Month High (AED)	12.00
12 Month Low (AED)	9.99
Market Cap. (AED bn)	83.0
Dividend Yield	6.2%
Enterprise Value (AED bn)	82.7
RIC	ETEL.AD
Bloomberg	ETISALAT.UH



	Q1 2011A	Q1 2011E	Q1 2010A	Q4 2010A	YOY	QOQ	AMC
Revenue, AED mn	8,040	8,447	7,871	8,604	2.1%	-6.6%	-4.8%
EBITDA, AED mn	4,109	4,343	4,316	3,990	-4.8%	3.0%	-5.4%
EBITDA Margin	51.1%	51.4%	54.8%	46.4%			
EBIT, mn	3,303	3,459	3,614	3,162	-8.6%	4.5%	-4.5%
EBIT Margin	41.1%	41.0%	45.9%	36.7%			
Earning, AED mn	1,817	1,967	1,994	2,025	-8.9%	-10.3%	-7.6%
Net Income Margin	22.6%	23.3%	25.3%	23.5%			
EPS, AED	0.23	0.25	0.25	0.26			

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